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The Impact of Auditor Age on Auditor Independence

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Abstract
The study investigates the reality of auditor age and auditor independence. The aim of this study is to determine the relationship between auditor independence and auditor age. The study used primary data. 60 questionnaires were distributed and 54 questionnaires were retrieved. The data were collected with the help of a well-structured questionnaire of three sections administered to eight firms in Benin City, Edo State. OLS regression was used in analyzing explanatory variables like board size, audit risk, professional judgment, auditor's age, tenure and auditor's independence as dependent proxy and the study reveal that auditor independence is significantly influenced by auditor age.
Keywords: Auditor independence, audit age, audit risk, professional judgment, integrity, tenure

1. Introduction

Current accounting scandals at well-known companies such as Enron, HealthSouth, Tyco, Worldcom, Cadbury, Afri bank, Oceanic bank and Intercontinental bank has affected the auditing profession. These has allow users of the financial statement to question auditor independence or the lack thereof. The auditors that audited these companies had been in existence for a long time. In the wake of these scandals, many of these companies saw their equity values drop noticeably and experienced a decrease in the credit ratings of their debt issues, often to junk status.

The major responsibility of professional auditors is to increase and maintain the confidence in financial statements by convincing the users of these statements that they (the auditors) are independence (Quick & Rasmussen, 2009). Nevertheless, auditor should be independence in appearance and in fact and must reflect this independence in his opinion. Throughout the audit, the auditor uses a factor that is central to all audit engagement: risk assessment. The activity of risk assessment is directly linked to the auditor age, auditor's risk behavior and risk attitude, as well as professional judgment. The soundness and superiority of the auditor's professional judgment as well as the auditor age and auditor independence are important fundamentals which work mutually to strengthen the reputation of the auditing profession.

1.2 Research Problem

Hua, Georgakopoulos, Sotiropoulos and Galanou (2010) conducted a study to discover the major factors that may influence auditor independence. The study findings indicated that non-audit service and low-price are not affecting auditor independence. Effective working regulations that govern the audit profession are vital factor in maintaining auditor independence. Competition and audit firm size are important aspects of auditor independence, but other national cultural concerns and political-regulatory aspects have weak effect on audit independence.

A cross-sectional survey was conducted by Adeyemi and Akinniyi (2011) on the opinions of some lecturers of auditing, practising auditors, stockbrokers, shareholders and managers to identify the main factors that may obstruct auditor independence. The result showed that amount of audit fee was the most key factor. The results also revealed that the existing laws and legislations were obsolete and need to be developed according to the current global business market requirements.

Wang and Hanna (1997) and Bellante and Green (2004) argue that, on the contrary, auditor independence increases with audit age. Based on this argument, the relationship between auditor age and auditor independence is not conclusive and that additional work needed to be done in this light the aim of this study is to find out the impact of auditor age on audit quality.

1.3 Research Questions

From the preceding, the study is expected to answer the following questions:

1) To what extent does auditor age affect auditor independence?
2) What impact does auditor age have on the auditor professional judgement?
3) To what extent does the auditor age impinge on the auditor's ability to take risk?

1.4 Research Objectives

In the light of the above questions, the main objectives of this study are stated as follows:

1) Determine the impact of auditor age on auditor's independence.
2) Ascertain if auditor age influence auditor professional judgement.
3) Know if auditor age influences auditor ability to take risk.

1.5 Hypotheses

This study will test the following hypotheses:
H01: Auditor age is not related to auditor independence.
H02: Auditor age is not influenced by auditor professional judgement
H03: Auditor age is not related to auditor ability to take risk.

2. Literature Review

2.1 Auditor Independence

Independence is historically and philosophically the base of the public accounting profession. Independence is fundamental to the reliability of auditors' reports. The reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent in appearance and in fact. Credibility means that the auditor's opinion must be based on a goal and unbiased assessment of whether the financial statements are presented fairly in compliance with generally accepted accounting principles. Interestingly, the IFAC (2001) definitions are more comprehensive. Independence of mind is defined as: the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism. Auditor must be independent of the auditee in both attitude and appearance. Audit function has to be independent of the activity being reviewed to allow objective completion of the audit assignment; Auditor should be and appear to be independent in attitude and appearance at all times (ISACA, 2013). Auditor must be organizationally independent of the area being audited. Independence in appearance is defined by IFAC as: 'the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude that a firms, or a member of the assurance team's integrity, objectivity or professional skepticism had been compromised.

ISB (2000) develops an independence risk continuum which relates the assessed level of independence risk with the possibility of compromised activity i.e. lack of independence in fact. Johnstone, Sutton and Warfield (2001) argue that independence risk is a function of antecedent environmental conditions derived from direct and indirect incentives in judgment based decisions.

Auditor Independence refers to the auditor's ability to present his opinion about the reliability of financial statements truthfully and without bias away from his interest or the pressure of clients (Abu & Ahmad, 2009). Though, professional auditor characterised by his/her unique skill obtained through a well-education, a commitment to going concern learning, service to society and profession, a code of ethics, an agreement to adhere by job's code and participation in the self-governance and monitoring of the profession (Mansouri, Pirayesh & Salehi, 2009). Wines (1994) contend that there is a potential for an appearance of auditor independence impairment when several non-audit services are provided to audit clients. Blay (2005) examined the influence of independence disfiguration and litigation risk on auditors' behaviour in assessing evidences and subsequent opinion choices. The results of study indicated that most auditors are face with high independence threats and risks evaluated information were more likely to suggest and present an unmodified audit report. Hay, Knechel & Li (2006) investigated whether providing extra non-audit services will weaken independent by testing three relationships. These include; whether there is a relationship between non-audit fees and audit fees, whether there is a relationship between non-audit fees and audit report modification or qualification, and finally whether there is a relationship between non-audit fees and permanence of audit tenure. The results indicated a potential for the impairment of auditor independence in appearance but no evidence has been found to support the effect on independence of mind.

Li (2009) carried out a study on whether auditors act independently when dealing with larger wealthy clients. The result of study indicated no relationship between higher fees and the economic dependence of auditors with respect to their going-concern opinions. Barbadillo, Aguilar & Carrera (2009) investigated the impact of the compulsory rotation of different audit firms on auditor independence. The results showed that the audit firms' rotation has no effect on the auditor independence issuing similar opinions. The results suggested that auditors' incentives are to guard and keep their reputation and credibility. It also encouraged them to keep going concern opinions, while auditors' incentives to keep current clients did not impact on their opinions in both the mandatory rotation and post-mandatory rotation periods. Abu and Ahmad (2009) conducted study on the main factors that influenced the audit independence. The results revealed that sum of audit fees is the main important factor. This followed by auditor age, tenure, audit fir size, competition, audit committee and management advisory service respectively.

2.2 Audit risk

The established audit risk model in SAS 300 identifies the overall audit risk. This is defined as the auditor giving 'an inappropriate audit opinion on financial statements (APB 1995)**.** Audit risk could be defined as the risk that an organization will give an inappropriate opinion, and the risk model underpins the concept of audit quality. Audit risk is the risk of the auditor getting an inaccurate conclusion based upon audit result. While planning and performing the audit, the auditor must attempt to reduce audit risk to an acceptably low level and meet the audit aims; there is an

opposite relationship linking materiality and level of audit risk acceptable to the auditor that is the higher the materiality level, the lower the acceptability of the audit risk, and vice versa (ISACA, 2013). This enables the auditor to determine the nature, timing and extent of audit procedures when planning for a specific audit procedure, the auditor determines the materiality is lower, thereby increasing the audit risk. Audit risk has three key components: inherent risk, control risk and detection risk. According to Adeniyi (2010) and ISACA (2013) Inherent risk is defined as 'the susceptibility of an audit area or a class of transactions to error in a way that could be material, either individually or in combination with misstatements in other balances or classes irrespective of related internal controls. They also defined control risk as risk that an error that could occur in an audit area and could be material, individually or in combination with other errors, will not be prevented or detected and corrected on a timely basis by the internal control system. They went further in explaining detection risk as the risk the auditor's substantive procedures will not detect an error that could be material, individually or in combination with other errors. The detection risk associated with identifying a lack of disaster recovery plans is ordinarily low, since existence is verified easily.

Jeppeson (1998) suggests that one effect of the big firms making efforts to differentiate themselves and add value to audit by adopting the business risk assessment process is that they become more closely identified with the objectives of management, and they consequently risk compromising their independence. However some counter balance may be provided as, by using this approach, the auditor acquires a better knowledge and understanding of the business. Power (2000) continues this argument by suggesting that much greater responsibility for compliance is being forced onto the company through regulatory initiatives, particularly the developments in corporate governance requirements and risk management. If the role of the auditor becomes one of involvement in the design of compliance systems within the company, then independence from the company may become more difficult to achieve. This issue emerges as one of the factors for which Andersen were criticized in the Waste Management case (SEC 2001).

Houston ,Peters & Pratt (1999) had auditors assess the audit risk and business risk for a case where specific errors or irregularities were present, then recommend audit investment and fees. They found that when the likelihood of an error was high, the fee did not contain a risk premium, whereas when the likelihood of an irregularity was high, the fee did contain such a premium. This suggests that auditors are sensitive to the need for more investment in auditing when high risk of fraud is present, although Houston et al. (1999) did not provide evidence on what specific procedures the auditors would perform to compensate for this risk. Auditors could have the desire to compensate for identified risks, but not the ability to do so. Some have suggested that an effective way of addressing such risks is to use fraud specialists.

2.3 Auditor Age

Vroom and Pahl (1971) investigate the age behaviour relationship on a sample of about 1,500 managers with age ranging from 22 to 60 years. They found that the slope of the relationship between mean riskiness and age is greatest in the age range 22 to 32 years, flattens out in the age range 33 to 48 years and increases again in the age range 48 to 58 years. This means that for the managers used in the study, the age group 22 to 32 years and 48 to 58 years appears to be more independence seeking whereas the age group 33 to 48 appears to be less independence. They also find evidence that the value people place on independence decreases with audit age in a linear relationship. This results offer evidence that there is a significant relationship between audit age and auditor independence. Morin and Suarez (1983) carried out a study and concluded that, on average, independence increases with audit age. Kahneman and Tversky's (1979) prospect theory - in which age may be a factor that alters the "objective" of independence and which could represent an alternative theoretical explanation for how age may affect financial decision making.

3. Methodology

The objective of the present research is to answer the research question and identify whether there is a relationship between auditor's independence and audit age. Due to time and economic constraints, in answering the research question, the survey method is selected for the purpose of this study in order to collect a sufficient amount of primary data. The use of questionnaires is the most widely used data collection technique in a survey and, in this study. The data collected are analyzed using chi-square statistical software and OLS regression analysis these are employed and the results will be used to validate or invalidate the hypothesis. The findings will be discussed and conclusions will be drawn.

4. Result and Discussion

60 questionnaires were distributed and 57 questionnaires were collected including 54 usable questionnaires. This yields a response rate of 86.67%. The highest level of gender response is male with frequency of 34 and percentage of 65.38%. The greatest age response is 34-41 and 42-48, frequency is 12 and percentage is 23.08%. The greatest response from qualification is ICAN with frequency of 18 and percentage of 34.61%. The highest level of occupation is auditors with frequency of 20 and percentage 34.61%. Table 1 describes the main characteristics of the

study respondents.

4.1 Data Analysis

Agbonifoh and Yomere (1999) opine that a good analysis of data gathered forms the bedrock of a successful project work. Data analysis involves the use of appropriate statistical tools for the nature of data collected. Therefore, chi-square test OLS regression was used to analyze data generated from questionnaires. Correlation will be used to analyze the data from the secondary sources in order to establish the relationship between the different variables.

One factor the regulators are concerned that may impair auditor's independence is long auditor tenure (the length of the auditor – client relationship). Their concern is that as the auditor tenure gets longer, auditors are more likely to compromise on their client's accounting and reporting choices in order to retain the client. But there no much work done on auditor's age. By our research finding auditors age has significant relation on auditor independence this is in agreement with Vroom and Pahl (1971). This leads to our second hypothesis (expressed in alternate form): H_1: Auditor independence is positively related to audit age (nine years or more) as compared with medium auditor tenure (four to eight years).

5. Summary of Findings

Auditors independence has turn out to be one of the most important aspects that focus on the integrity and quality of an audit that enhances the shareholders confidence. Table of descriptive statistics shows the various means and standard deviation of the explanatory variables and the independent variable. Furthermore, from our analysis auditor's age should not be a single measure of auditors independence and the tendencies to engage in audit risk we highlighted on other explanatory variables.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Auditor independence	30.33	22.004	54
Board size	9.87	3.082	54
Audit fee	10.59323	.897265	54
Auditor risk	12.27	6.034	54
Professional Judgment	.36670	.237816	54
Auditors age	1.2817	2.30523	54
Tenure	11.233	3.1369	54
Integrity	60.5653	26.14177	54

The relevance of auditor age to auditor independence is clearly specified by our ANOVA table with F-value (1.786) it has a relationship between audit age and auditor independence proxies and its statistically significant. It was clear that our null H_0: For the third hypothesis is to be rejected and accept the alternative hypothesis. In these findings it is obvious that auditor independence is positively related to auditor ability to take risk in Accordance to Adeniyi (2010).

Table 2: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5088.019	7	726.860	1.786	.141[b]
	Residual	8952.647	22	406.939		
	Total	14040.667	29			

a. Dependent Variable: Auditor independence

Integrity, Auditor age, Board size, Professional Judgment, Audit Risk , Tenure, Integrity [b]

Auditor independence will further be strengthened as to whether evidence for the often postulated influence of Auditor age on important outcomes can be valid measurement model for professional judgment and the validation of identified relations to its antecedents and consequences in taking audit risk.

Table 3: Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	171.807	76.885		2.235	.036
	Board size	-.993	1.787	-.139	-.556	.584
	Audit fee	-13.006	7.648	-.530	-1.700	.103
	Auditor risk	-.842	.729	-.231	-1.155	.260
	Professional Judgment	-38.968	19.813	-.421	-1.967	.062
	Auditor age	-4.076	2.003	-.427	-2.035	.054
	Tenure	3.470	1.520	.495	2.284	.032
	Integrity	-.050	.175	-.060	-.287	.777

a. Dependent Variable: Auditor independence

$Audiind_p$=171.807-.99bosize–13.006audfee-.842audage-38.968profjudg–4.076audrisk+3.470TEN-.050INT

Std. Error 76.885 1.787 7.648 .729 19.813 2.0031 .520 .175

T_{val} 2.235 -.556 -1.700 -1.155 -1.967 -2.035 2.284 -.287

It is clear by our regression hypothesis that the aims of this study was meant in that auditor age has positive relationship with auditor's independence and ability to take risk was brought to focus by our analysis. This was done by the structural model of our auditor independence having a negative relationship with Auditor age, Board size, Professional Judgment, Audit Risk, Integrity, with the exception of tenure (0.032) which has a positive relationship and it is also statistically significant, professional judgment (0.062), auditor age (0.054) is statistically significant. The hypothesis of the relationship between audit risk and its driver auditor independence was seen as an internal advantage to detect errors in audit report of firms under review.

6. Discussion of Findings

Consistent with prior literature and throughout our analysis we winsorize the extreme values of the distribution has read by our R (0.602) which is 60% and R^2 (0.362) which is 36% explains the level of the explanatory variable with auditor independence with a stand error of 20.173. The result is not affected by whether and how we identify the auditor independence variable. Our results are also not sensitive to MxNichols 200 modification which adds changes to auditor age estimators as independent variables.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.602[a]	.362	.159	20.173

a. Predictors: (Constant), Auditor age, Board size, Professional Judgment, Audit Risk , Tenure, Integrity [b]

Prior research provides support for tenure (0.032) level of significance as a factor considered by boards of director in selecting auditors. But there is significance with auditor's age DeFond and Francis (2005) suggest the analysis of audit reporting behavior at the level of the individual partners who could be the ultimate decision makers in issuing audit reports to clients. Based on prior research which argues that audit tenure-ship had significant relationship with auditor's independence is likely to play a smaller role in contract enforcement as the agent gets older (age displayed in this context). DeAngelo's definition is the market-assessed probabilities, that is, it hinges on the market's perception as to whether a given auditor will perform the audit competently and the perceived degree of auditor independence DeAngelo (1981), we also examine the sensitivity of our results to eminent professional judgment to specifically we redefine the variable auditor age to be equal to 25-65years of age or older, and zero otherwise. The result of this test shows that the coefficient on auditor's age is not significantly different from zero. It shows that there are so many cases where auditor age does affect the professional judgment, integrity and risk. To keep empirically modeling simple, we treat auditor's integrity (-0.067) as variable for purpose of this test. By the analysis it is obvious that often time there is a significance relation between auditor independence and audit age. By our findings we also examine the effect of the auditor age has significant influence on professional judgment.

The chi-square statistical test also attests to the conclusion that our null hypothesis is to be accept the alternative hypothesis.

7. Conclusion

Auditor independence has been a major concern for a long time. In recent times, it has become more pronounced, given the collapse of Enron, which resulted in the closure of Arthur Andersen, one of the major international accounting firms Vinten, (2003). Auditor independence has been defined as the ability to resist client pressure Knapp, (1985). Similarly, Independence Standards Board (ISB) (2000) defined auditor independence as the: . . . freedom from those pressures and other factors that compromise, or can reasonably be expected to compromise an auditors' ability to realize unbiased audit decisions. Auditor independence has been assessed based on two standards, that is, fact and appearance. Independence in fact refers to the actual objective state of the relationship between auditing firms and their clients. Independence in appearance refers to the subjective state of that relationship as perceived by clients and third parties see auditor independence was perceived to be enhanced by the existence of audit committees, rotation of audit partners, risks to auditor arising from poor quality, regulatory rights and requirements surrounding auditor change and an auditor's right to attend and be heard at the company's annual general meetings. To date, research has been done in many countries, including Lindsay (1992) in Canada, Gul (1989) in New Zealand, Teoh and Lim (1996) in Malaysia, Beattie et al. (1999) and Firth (1980) in the UK, Hudaib (2003) in Saudi Arabia and Bartlett (1993) in the USA, to name a few. Interestingly, most studies have focused on identifying the factors that form a potential threat to auditor independence in appearance. However, little attention has been paid to the factors that enhance auditor's age.

From our finding auditor independence has strong significant relationship with auditor's age, professional judgment, and audit tenure but has a weak significant relationship with board size, audit fee and audit risk. The implication of this is that the auditor's age does not impair on his independence. An auditor who has bagged a professional qualification can discharge official duties and the duties of care at any age. For an auditor to be effective he must possess certain characteristics, which can be classified into personal and professional qualities. The personal characteristics include an analytical mind which develop progressively with age and experience, patience, diligence, good interactive skills and an understanding of human behavior.

Auditor age is positively related to auditor's ability to take risk, this contradict our null hypothesis. Auditor independence comprises of three distinguishable phases namely professional independence, audit independence and perceived independence. Professional independence requires the auditor deriving from self-imposed standards and peer-group 'surveillance, to be free from control or influence of management. Audit independence implies the freedom of prejudice on the part of the auditor in performing the audit functions, ensuring objectivity in forming delicate judgment or opinions. Perceived independence involves the perception of the public on the independence of the auditors and the entire profession.

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Appendix

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
Auditor independence	30.33	22.004	30
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Professional Judgment	.36670	.237816	30
Audit Risk	1.2817	2.30523	30
Tenure	11.233	3.1369	30
Integrity	60.5653	26.14177	30

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Integrity, Auditor age, Board size, Profession Judgment, Audit Risk , Tenure, Integrity [b]	.	Enter

a. Dependent Variable: Auditor independence

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.602[a]	.362	.159	20.173

Integrity, Auditor age, Board size, Profession Judgment, Audit Risk , Tenure, Integrity [b]

ANOVA[a]

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Integrity, Auditor age, Board size, Profession Judgment, Audit Risk , Tenure, Integrity [b]

Coefficients[a]

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	Auditor age	-4.076	2.003	-.427	-2.035	.054
	Tenure	3.470	1.520	.495	2.284	.032
	Integrity	-.050	.175	-.060	-.287	.777

a. Dependent Variable: Auditor independence

Chi-Square Test: SA, A, UN, D, SD

Expected counts are printed below observed counts
Chi-Square contributions are printed below expected counts

	SA	A	UN	D	SD	Total
1	6	6	5	2	6	25
	8.76	7.48	4.34	2.28	2.14	
	0.870	0.292	0.099	0.034	6.985	
2	5	9	6	1	4	25
	8.76	7.48	4.34	2.28	2.14	
	1.614	0.309	0.631	0.718	1.625	
3	9	7	5	0	4	25
	8.76	7.48	4.34	2.28	2.14	
	0.007	0.031	0.099	2.279	1.625	
4	11	11	3	0	0	25
	8.76	7.48	4.34	2.28	2.14	
	0.572	1.658	0.416	2.279	2.137	
5	5	6	6	7	1	25
	8.76	7.48	4.34	2.28	2.14	
	1.614	0.292	0.631	9.778	0.605	
6	7	13	2	1	2	25
	8.76	7.48	4.34	2.28	2.14	
	0.354	4.076	1.265	0.718	0.009	
7	8	6	8	3	0	25
	8.76	7.48	4.34	2.28	2.14	
	0.066	0.292	3.075	0.228	2.137	
8	12	5	4	3	1	25
	8.76	7.48	4.34	2.28	2.14	
	1.198	0.821	0.027	0.228	0.605	

Table 1. Background information of the respondent

Gender	Frequency	%
Male	36	63.38
Female	18	34.62
Total	54	100
Age Group		
18-25	8	15.38
26-33	10	19.23
34-41	13	23.08
42-48	13	23.08
49-56	6	11.54
Others	4	7.69
Total	54	100
Qualification		
BSc	6	11.52
MBA	10	19.23
MSc	13	23.08
ICAN	19	34.61
ANAN	6	11.54
Total	54	100
Occupation		
Civil Servants	15	26.29
Accountants	15	26.29
Auditors	20	34.46
Lecturers	4	7.69
Total	54	100